

104TH CONGRESS
1ST SESSION

H. R. 1328

To amend the Internal Revenue Code of 1986 to provide that no amount shall be includible in gross income by reason of participation in a State prepaid tuition program.

IN THE HOUSE OF REPRESENTATIVES

MARCH 28, 1995

Mr. ENGLISH of Pennsylvania (for himself and Mr. DOYLE) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide that no amount shall be includible in gross income by reason of participation in a State prepaid tuition program.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Tuition Account
5 Assistance Act of 1995”.

1 **SEC. 2. TREATMENT OF PARTICIPATION IN STATE PREPAID**
2 **TUITION PROGRAM.**

3 (a) IN GENERAL.—Part III of subchapter B of chap-
4 ter 1 of the Internal Revenue Code of 1986 (relating to
5 items specifically excluded from gross income) is amended
6 by redesignating section 137 as section 138 and by insert-
7 ing after section 136 the following new section:

8 **“SEC. 137. TREATMENT OF PARTICIPATION IN STATE PRE-**
9 **PAID TUITION PROGRAM.**

10 “(a) GENERAL RULE.—No amount shall be includ-
11 ible in the gross income of any person by reason of—

12 “(1) education furnished to a designated bene-
13 ficiary pursuant to a qualified State prepaid tuition
14 program, or

15 “(2) earnings on any amount paid to such a
16 program for the purchase of tuition credits for a
17 designated beneficiary.

18 “(b) QUALIFIED STATE PREPAID TUITION PRO-
19 GRAM.—For purposes of this section—

20 “(1) IN GENERAL.—The term ‘qualified State
21 prepaid tuition program’ means a program estab-
22 lished and maintained by a State or any agency
23 thereof under which—

24 “(A) an individual may purchase tuition
25 credits for tuition for the undergraduate edu-
26 cation of a designated beneficiary,

1 “(B) the value of the tuition credits is not
2 limited to the amounts paid for such credits
3 and earnings thereon,

4 “(C) the individual has no authority to di-
5 rect the investment of amounts paid to the pro-
6 gram, and

7 “(D) the requirements of paragraph (3)
8 are met with respect to any refund of amounts
9 paid to the program.

10 Subparagraph (B) shall not apply to tuition at an
11 institution of higher education which is not required
12 by the laws of such State to participate in such pro-
13 gram.

14 “(2) TREATMENT OF EXCESS TUITION CRED-
15 ITS.—A program shall not fail to be treated as a
16 qualified State prepaid tuition program by reason of
17 permitting tuition credits to be used other than for
18 tuition for an undergraduate education if—

19 “(A) the only other purposes for which
20 such credits may be used are—

21 “(i) for tuition for a graduate degree
22 program of the designated beneficiary, or

23 “(ii) for education expenses (other
24 than tuition) of such beneficiary, and

1 “(B) the program provides a significant re-
2 duction in the value of such credits if used for
3 such other purposes.

4 “(3) RESTRICTIONS ON REFUNDS.—A refund
5 meets the requirements of this paragraph if the re-
6 fund meets the requirements of any of the following
7 subparagraphs.

8 “(A) DEATH OR DISABILITY OF DES-
9 IGNATED BENEFICIARY.—A refund meets the
10 requirements of this subparagraph if the refund
11 is made on account of the death or disability of
12 the designated beneficiary.

13 “(B) SCHOLARSHIPS.—A refund meets the
14 requirements of this subparagraph if the refund
15 is made on account of a scholarship received by
16 the designated beneficiary and the amount of
17 the refund does not exceed the amount of the
18 scholarship which is used for tuition.

19 “(C) FAILURE TO GAIN ADMISSION.—A re-
20 fund meets the requirements of this subpara-
21 graph if the refund is made on account of the
22 failure of the designated beneficiary to gain ad-
23 mission to an institution of higher education
24 (after making a good faith attempt, as deter-
25 mined by the program, to gain admission) and

1 the amount of the refund does not exceed 90
2 percent of the value of the designated bene-
3 ficiary's account.

4 “(D) OTHER WITHDRAWALS FROM PAR-
5 TICIPATION.—A refund meets the requirements
6 of this subparagraph if the refund is made on
7 account of a termination of participation in the
8 qualified State prepaid tuition program (other
9 than for a reason described in any of the pre-
10 ceding subparagraphs) and the amount of the
11 refund does not exceed the lesser of—

12 “(i) 90 percent of the value of the
13 designated beneficiary's account, or

14 “(ii) the aggregate amount paid to
15 such program for the benefit of the des-
16 ignated beneficiary.

17 “(c) OTHER DEFINITIONS.—For purposes of this
18 section—

19 “(1) TUITION CREDIT.—The term ‘tuition cred-
20 it’ means the amount of tuition which is paid by the
21 qualified State prepaid tuition program reason of
22 payments to such program.

23 “(2) TUITION.—The term ‘tuition’ means tui-
24 tion and related expenses (as defined in section
25 117(b)(2)).

1 “(3) DESIGNATED BENEFICIARY.—The term
 2 ‘designated beneficiary’ means the individual des-
 3 ignated at the commencement of participation in the
 4 qualified State prepaid tuition program (or any sub-
 5 stitute beneficiary to the extent provided by the pro-
 6 gram) as the beneficiary of amounts paid (or to be
 7 paid) to the program.

8 “(4) VALUE OF DESIGNATED BENEFICIARY’S
 9 ACCOUNT.—The value of a designated beneficiary’s
 10 account is an amount equal to the sum of—

11 “(A) the aggregate amount paid to the
 12 qualified State prepaid tuition program for the
 13 benefit of such designated beneficiary, plus

14 “(B) such amount’s pro rata share of the
 15 earnings (if any) on the aggregate amount paid
 16 to such program for all designated beneficiaries.

17 “(5) PERSON.—The term ‘person’ includes a
 18 State and any agency of a State.”

19 (b) CLERICAL AMENDMENT.—The table of sections
 20 for such part III is amended by striking the last item and
 21 inserting the following new items:

 “Sec. 137. Treatment of participation in State prepaid tuition
 program.

 “Sec. 138. Cross references to other Acts.”

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years ending after Sep-
3 tember 30, 1993.

